

ESSENTIALS OF MONETARY POLICY

European Central Bank (ECB)

The ECB Kicks Monetary Tightening into High Gear

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ACCORDING TO THE ECB

- ▶ The ECB increased the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility by 75 basis points to 1.25%, 1.50% and 0.75% respectively.
- ▶ The Governing Council expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations.
- ▶ Inflation remains far too high and is likely to stay above target for an extended period, averaging 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024.
- ▶ The latest economic growth projections have been revised down markedly for the remainder of the current year and throughout 2023. The eurozone economy is now expected to grow by 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

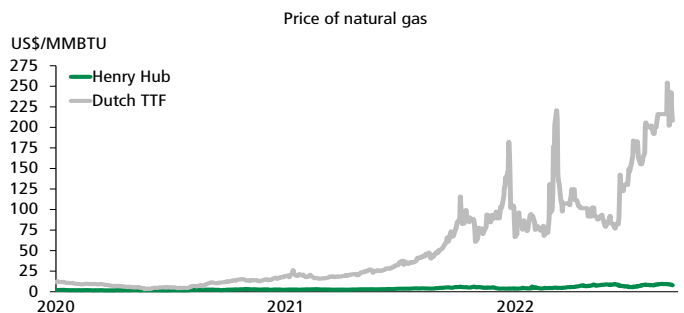
COMMENTS

After raising rates by 50 basis points in July, the ECB has kicked its monetary tightening into high gear. Today's decision comes because inflation is far too high and could become entrenched. In contrast to North America, European inflation is showing no signs of plateauing. The region is bearing the full brunt of the war in Ukraine, particularly through unprecedented increases in energy prices. Continental Europe's benchmark natural gas price is more than 20 times higher than its American equivalent. This shock is now extending to other prices and causing sharp increases in several core inflation prints. The rise in the inflation forecast for 2023—from 3.5% to 5.5%—is particularly acute.

In contrast, higher interest rates will further curb economic growth, which is already suffering from the energy price shock. The ECB's latest projections are more pessimistic and compatible with declines in real GDP over the coming quarters.

GRAPH

The European benchmark price (Dutch TTF) is far higher than its American equivalent (Henry Hub)



MMBTU: Million British Thermal Units
 Sources: Bloomberg and Desjardins, Economic Studies

IMPLICATIONS

The ECB's press release clearly indicates that it expects to raise interest rates further in the coming months. However, it remains uncertain how quickly it will act given the economic challenges ahead. We still expect a minimum of two more increases of 50 basis points by the end of the year.

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
April			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
May			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+75 b.p.	7.75
30	Bank of Sweden	+50 b.p.	0.75

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Korea	+50 b.p.	2.25
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
August			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
September			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
15	Bank of England		
20	Bank of Sweden		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
October			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
24	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.